

# Management of Organizational Change Projects in the German Energy Sector

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## **Abstract:**

The article discusses the management of organizational change projects in the German energy sector. What are the changes Project Managers have to handle? How do they manage the projects for downsizing, restructuring and scaling their business? Which experiences did they gather? How important are “soft fact” topics like participation, qualification and communication?

In the first quarter of 2013 we started a series of explorative expert interviews. We contacted six managers from 4 different companies covering the established power supply industry and companies in the area of renewable energy technologies.

## **1 Business Environment for the German energy industry**

Of course the companies in the energy industry are very different regarding their business focus and internal structures. Anyway, since spring 2010 they are in a similar situation, they have to cope with the tremendous change impact, kicked-off by the German “Energiewende”. The political decision to quit the nuclear energy business irrevocably has changed the business setting completely. In the last few years, the companies have faced a need for change. In fact, there are winners and losers. The organizations are in different positions to handle the chances. While some see new opportunities, others are threatened in their existence.

“A lot of big projects have been killed in the last year. Everybody asks himself whether his job is still safe.” This is how a project manager from a plant building unit of a traditional power supply company is reporting. The level of uncertainty is high. The managing director of a service company puts it quite bluntly: “Our traditional business model is no longer working. We have to cope with a fatal chord of leaving the profitable nuclear business and investing heavily into the power grid at the same time. Additionally our gas business has to digest the fundamentally changed price level in the market.”

So far, in the power supply industry the effects for the employees are discouraging. The three big power companies RWE, EON, EnBW have announced major cost-cutting initiatives and substantial lay-offs. Almost 25,000 employees will have to leave in the next few years. The resizing of the companies is not well understood by the people. In 2012/13 EON and RWE were still reporting a multi-billion profit. [2,3]

This doesn't increase the level of acceptance in the staff. Instead the forced change is perceived as a threat. The main challenges for the organizational development is to re-size the internal structures while dealing with an organizational culture based on stability and security.

We found a different situation in the renewable energy sector. The need for change is not smaller. On the contrary, companies in the solar and wind energy business have to face two major challenges in the market. The competitive pressure, especially from Chinese companies, has risen in the last few years. Due to much lower production costs, the competitors from Asia were able to force down the price level in the market. While at the same time the demand in the German market is flattening. The changed approach for subsidizing the private customers has started to reduce the market demand.

“This is a roller coaster business,” as the Head of HR in a wind power company in the small firm sector puts it. The years of strong growth came to an abrupt stop in 2008. The dry-out in the financial markets made it difficult to invest in new installations. In the following years growth was much lower than expected. For the internal structures a time of consolidation was started. Additionally the remaining growth took place outside Germany. “We are a traditional German craftsman’s business, grown up to a couple of thousand employees and faced with the challenge to manage our international customer base globally.” The main task for the organization is to align internal processes and to qualify the staff for the change business environment.

These market forces have become almost lethal in the solar energy industry. The German solar energy companies are in a very uncomfortable situation. In the golden years between 2000 and 2008 they grew enormously, driven by the publicly financed demand boom. The number of employees in the solar energy industry exploded up to 130,000 in 2011. Almost everybody in the industry built up excess capacity. At the same time they neglected investment in R&D. In Germany today, we have a lot of oversized solar energy companies with a substandard portfolio of product innovations. Since 2011 the demand is drying out and the price is falling. The consequences for the companies are highly visible in the newspapers. In 2012 alone more than 30,000 people were laid-off. Pessimistic estimates believe that almost 70% of the companies will have to leave the market within the next 5 years. Today, organizational development projects mean to increase efficiency, re-sizing and re-locating. [4,5]

## **2 Conceptual approach for integrating project and change management**

Organizational changes can be managed as projects; they are temporary endeavours with clearly defined objectives. The addressed organizational change is a unique, one-time activity; this means that the uncertainty about how to get there and the risk of missing the target are high. Modern project management provides a well proven framework for planning and controlling tasks like this.

In the energy industry projects are well established as a form of working. Project management is applied intensively for managing engineering projects. Project managers are trained and experienced in tools and techniques. Traditionally these projects are focused on “hard facts and mandatory dependencies”. The more soft fact oriented issues like communication, qualification and participation are normally not central for delivering project success. This is changing. The massive organizational remodelling has increased the need for managing the people side of change.

Managing organizational change is aimed at supporting organizations, teams and individuals by implementing structures, processes and behavioural routines in the organization. To implement means to ensure the acceptance and the application of the changes on a social and psychological level. Modern change management provides methods and approaches for designing and accompanying change processes. [1,6,7,9]

Change projects follow the classical project management circle of initializing, planning, executing and close down. [8] The main management tasks are described as project assignment, project baseline and project governance structure. For organizational changes a life circle concept can be described. The phase concept is based on an iterative, cyclical approach to manage organizational changes in a step-by-step fashion. [10] (Abb. 1)

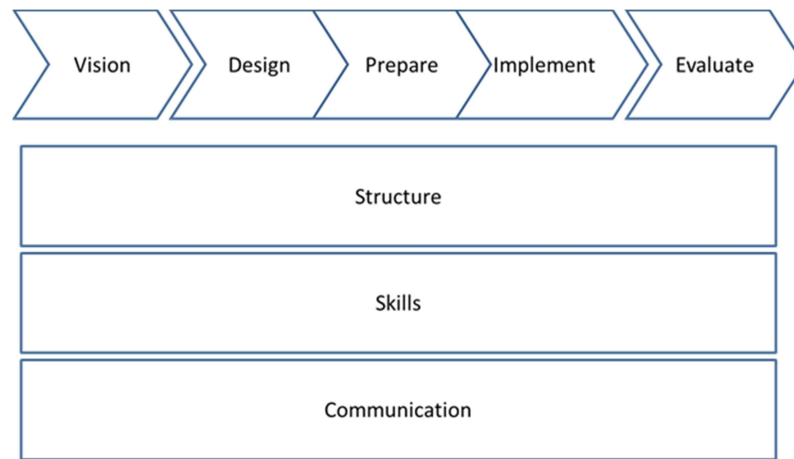


Abb.1

- Vision – the change-initiative starts with the definition of the organizational vision. This covers the fit between strategy, environment and the main organizational design dimensions. Basically the management has to answer the questions: Why do we have to change? What do we want to achieve?
- Design – the specification of the relevant organizational design dimensions is set up. This may cover different scenarios and is based on an iterative process. It gives a clear picture of what will change and how the organization plans to get there. Essentially it covers design elements and communication issues alike. It is a holistic approach for describing the change roadmap.
- Preparation / Implementation: now the executing is started. Materials for training and communicating are set up, multipliers and managers are prepared. The design elements are rolled out. All necessary activities and deliverables for “going-live” are managed.
- Evaluation - one of the challenges of organizational change projects is that it might take some time before the intended positive consequence can be observed. The evaluation means not only implementing ongoing checks for making sure the project is on track. Additionally the evaluation has to monitor the long-term effects of the new organizational set-up.

The CM life cycle describes the basic phase of the project. Additionally different work streams can be used to describe the required activities and deliverables:

- Structural development – organizational changes are based on a clear definition of the organizational structure, role definitions, reporting lines, performance lines and more. These tasks can be planned and controlled based on work packages and deliverables.
- Skill development – for employees a new organizational structure brings new roles and tasks. They have to learn new skills and develop the required competencies. This is an HR issue and is normally rather a long-term task interfacing with daily HR business. In the project plan this is often handed over to experts from the line organization. The

monitoring is also carried out in more HR-specific way, taking care of individuals and long-term development goals.

- Leadership and Communication – successful organizational change projects are able to deliver not only the required deliverables. Additionally stakeholder acceptance is ensured. The main challenge is to communicate properly with the impacted stakeholder groups. One basic tenet of change management is to offer participation, which means to involve the impacted persons. This is a leadership issue and requires open communication about objectives, procedures and reasons. In the project plan this is not easily addressed by work packages and hard dependencies. A more iterative, open approach is required. Often concepts like maturity levels and stages are applied to describe and follow-up the “soft” side of organizational change.

### **3 Status Quo**

How are companies handling the need for organizational change today? Are managers willing and able to address the people side of change in a professional way? How are project management and change management linked in management practice?

Management of Project Portfolios – considering organizational change aspects

Companies are challenged by external pressure to adapt to changed market conditions. While companies are pursuing different strategies, there are some typical patterns in the different sectors of the energy industry. In the companies from the traditional power supply sector, an atmosphere of loss and insecurity is often prevalent. This also shapes the management attitude and actions. A different mood can be found in the companies of the renewable energy installation and production business. Overall, they have started to seize the opportunities of the new market constellation.

“The announcement of massive staff reductions hit us by surprise. Afterwards, almost nobody was interested in the daily project business. Everybody started to position himself for the new organizational setup,” reported a project manager from the plant building unit of an energy provider (Energieversorger – EVU). An atmosphere of “duck and hide” took place. A tendency to avoid risks and delay decisions made the daily business difficult.

A different observation was described in those companies contacted in the solar & wind energy industry. The employees are much more familiar with changing conditions. From the start-up years, they are used to working in a highly dynamic environment. Furthermore, the culture of flat hierarchies and lean processes is creating a more open and agile company culture. This supports a more opportunity-oriented discussion of the situation and a higher willingness to take risks.

No matter which part of the industry, none of the contacted companies applies a systematic approach for identifying and analysing change projects. There is no portfolio-oriented approach for managing and coordinating organizational change activities. The companies are following a more re-active approach and start to address the people side only after resistance by the employees has become critical.

This management practice has at least two major drawbacks. Firstly, the companies are missing the benefits of a coordinated portfolio. Synergies might be lost and conflicts evolve in an uncoordinated, potentially harmful way. Secondly, organizational change projects are

competing not only for resources and time. Even more challenging, change projects draw attention away from the daily business. This effect may harm the operational performance substantially and also reduce the motivation of the staff in the long term. A coordinated, portfolio-based approach can help to avoid these unintended effects and keeps the organization agile.

### Planning and executing change projects

All interviewed experts reported about a strong project culture in the companies. The management tasks of planning and controlling are performed reliably and with a sufficient level of professionalism. Well-proven tools such as assignments, breakdown structures and performance indicators are systematically deployed.

A completely different picture is found in the area of communication and participation. None of the contacted project managers was aware of any defined or actively managed communication strategy in project work. In reality, stakeholder management was carried out in a very reactive way, only when the pressure started to rise. In general, the lack of a clearly-defined communication plan makes this a very exhausting and unpleasant activity. One project manager puts it bluntly: “Change management – nobody wants to do this job!”. [3,4]

The project management guidelines of the contacted companies do not give any advice or support in managing the change issues. How to set up a communication plan? How to define a skill development strategy or how to align the leadership style with the change scenario? The project managers are on their own in handling these tasks. Not surprisingly, an effective implementation of change initiatives is perceived as a rare exception in the companies. Today, project management practice in companies has a blind spot regarding change management.

At operational level, the project managers become more and more aware that “soft factors” are critical for success in managing change. The teams start to invest time to develop a common understanding about risks and opportunities of social issues. Experiences and lessons learned are collected on how to foster awareness and acceptance, how to involve the impacted and organize participation? How to run an effective and efficient communication campaign? Gradually, internal networks of experts are established to share findings and best practices. Overall, the teams are willing to try new approaches and to learn about change management. More and more, they start to apply more experimental settings from the world of theatre and music.

One challenge is to make sure that “repercussions” and feedback in the organization become visible: fast, reliable and in an efficient way. “We are very interested to learn about how the kicked-off changes are perceived by the impacted colleagues,” says one project manager involved in a process roll-out initiative. Established communications formats such as conferences, market-place settings and networks of experts have become so common that it is difficult to trigger the required reflections on a social and psychological level. New approaches based on large-group settings such as World Café and Future Conference are used. But also more cost-efficient approaches based on Web 2.0 technologies have become part of the communication toolbox in the companies. Very clearly, the change experts in the organizations are fighting for the necessary attention with creativity and innovations.

Unsurprisingly, the lack of planning in the soft fact area has negative consequences in the execution phase as well. In times of budget-cuts and reprioritizations, activities that are not explicitly planned have a hard time surviving. Almost every contacted project manager talked

about the exhausting task of securing budgets and resources for communication and participation. Reduced travel expenses, massive cuts in training and qualifying measures, overall hard-fact oriented discussions about productivity and efficiency make it very difficult to run the necessary change activities. The blind spot in project plans has become an open-pain point in the execution phase. Today, change management has a low priority on the management agenda.

## Participation and Communication

Traditionally, the German EVUs have a strong culture based on stability and security. This is fundamentally manifested in the mentality of managers and employees. “The majority of our managers are mainly interested in perfectionism and permanence. They defend the status quo, avoid risks and are basically in re-active mode.” This is the appraisal an EVU manager gives to his management peer group in a large EVU company. He is also concerned about the slow-motion mode which makes decisions difficult and decreases desperately required business agility.

Overall in the contacted EVU, the management is focused on numbers and “hard facts”. Strategy and execution are linked by the management-by-objectives framework which emphasizes quantitative objectives and performance indicators for controlling. Soft facts are not covered in the score cards with the same rigour as the head count and productivity. Furthermore, the basic communication mode is top-down and runs through the complex management hierarchies. More participating styles of collating and distributing information are not part of the organizational set up today.

Again, we found a different situation in companies of the renewable energy business. Generally, the companies are smaller and on average younger. They have a strong identity formed in the start-up years of growth and financial success. Hierarchies are flat, the processes overall leaner, a more decentralized, participatory style of communicating has been implemented. This has consequences for the management mentality. “The ability to communicate with colleagues on different levels is a must for every manager in your company. We assess this carefully when hiring new people.” Afterwards, the managers take part in development programs which address these leadership competencies. Coaching, networks and feedback sessions are in common use.

## 4 Change Management as a core competence

At which point are the companies today? The interviews with managers from projects and line departments represent only a very limited view of the status quo in a diverse industry. The comments are subjective and of course do not allow generalizations for the whole sector. Nonetheless, a first impression which may support future research activities can be formulated based on the discussions.

- The “Energiewende” is forcing companies to change. The better they are able to re-position themselves in the changed business environment the more likely they will be able to exploit the opportunities of this market. This change requires not only new products and processes, they also need a company culture which allows and fosters organizational change. The “People side of change” is a basic ingredient to becoming and remaining agile. Today, companies have a low cultural awareness of this. While the traditional EVUs cling to their core values of stability and status quo, the companies from the renewable sector are trapped in a mentality of reaping state subsidies and

living in unsustainable market structures. This cultural misfit between internal structures and external challenges is threatening the long-term viability of the industry.

- Managing change is a core discipline in modern management. Being aware of, and being able to manage, “the people side of change” is a must in every industry which is confronted with a global and dynamic market. Compared to companies in telecommunications or aviation sectors, which digested this challenge a couple of years ago, the power generation industry is in its early phase. The change topic is at the bottom of the management agenda and the operational performance is substandard in terms of maturity. This lack of alignment of the internal skills map may harm the competitive position of the companies. The ability to motivate people is a critical success factor.
- Time is critical! It not only takes time to improve business agility; even more critical, bad change management is demotivating people in the long term. There is no quick-fix for restoring trust and support once it has been lost. Today, the value of a motivated work force and a strong corporate identity does not seem to have top priority in the management discussion. The experience from other industries is quite obvious; business agility is built on company culture. Some companies have learned this the hard way.

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